Financial Institutions Commission

Service Plan

2004/2005 – 2006/2007

BRITISH COLUMBIA

Province of British Columbia
Ministry of Finance

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Section 1: Plan In Brief

FICOM's Responsibilities

FICOM is responsible for regulating the financial services sector, including pensions and real estate services, in the Province of British Columbia. Confidence in these sectors is of fundamental importance to a strong and vibrant provincial economy.

FICOM's mission is to maintain confidence in the financial services sector. In support of this mission, FICOM has six organizational goals:

Goal 1:	British Columbians have confidence in credit unions and trusts because they are effectively regulated.
Goal 2:	British Columbians have confidence in insurers because they are effectively regulated.
Goal 3:	British Columbians have confidence in provincial pension plans because they are effectively regulated.
Goal 4:	British Columbians have confidence in mortgage brokers because they are effectively regulated, and British Columbians are satisfied with FICOM's administration of its real estate responsibilities.
Goal 5:	The investigative activities of FICOM deter non-compliance with statutes and criminal activities related to financial services in British Columbia.
Goal 6:	FICOM is administratively effective and efficient.

Enhancements in this Year's Service Plan

This year's service plan has been revised and updated as part of an ongoing commitment to performance planning and reporting.

Last year's service plan identified twelve organizational goals: five goals were categorized as regulatory responsibilities and seven as strategic objectives. These twelve goals have now been reviewed and condensed, with five new organizational goals identified as replacements, and a sixth goal has been identified that expressly addresses administrative effectiveness and efficiency.

Additionally, a more sophisticated approach to performance measures is being implemented. Confidence indexes are being developed for reporting on the first three organizational goals at an outcome level, and comparative measures are being utilized more widely. The indexes are intended as a general gauge of the state of the respective industries and will be used to guide the level, manner, and intensity of regulatory supervision.

Section 2: Resource Summary

Projected Annual Operating Budget By Program ($000)

Core Businesses	2003/04 Estimates	2004/05 Target*	2005/06 Target	2006/07 Target
Operating Expenditures**				
Credit Unions and Trusts	3,828	4,399	4,450	4,500
Insurance	1,560	1,863	1,900	1,950
Pensions	889	1,042	1,100	1,150
Real Estate and Mortgage Brokers	2,302	2,769	2,824	2,878
Recoveries	8,578	10,072	10,273	10,477
Totals	**1**	**1**	**1**	**1**

*Targets forecasted at November 12, 2003. The increase from 2003/04 to 2004/05 is attributable to new Legal Services costs, the Financial Services Tribunal and anticipated salary adjustments.

**The above figures are program costs that include the allocation of administration costs to individual programs.

Projected Staffing Complement By Program (FTEs)

Core Businesses	2003/04 Estimates	2004/05 Target*	2005/06 Target*	2006/07 Target*
Staff FTEs				
Credit Unions and Trusts	25	25	25	25
Insurance	9.5	9.5	9.5	9.5
Pensions	8	7*	7	7
Real Estate and Mortgage Brokers	10	10	10	10
Investigations	16	16	16	16
Administration	20.5	22.5*	22.5	22.5
Totals	**89**	**90**	**90**	**90**

*One position from Pensions is being transferred to the CEO's office for 2004/05, and a secretary is being added to support two Legal Services lawyers at FICOM for 2004/05, a net increase of one FTE.

Section 3: Core Business Areas

Credit Unions and Trusts

Responsible for the regulation of credit unions and trust companies under the *Financial Institutions Act*, *Credit Union Incorporation Act*, and *Community Financial Services Act*, and for providing deposit insurance for credit unions through the Credit Union Deposit Insurance Corporation.

Insurance

Responsible for the regulation of insurers under the *Financial Institutions Act*, and for administering the *Insurance Act*, *Insurance (Captive Company) Act*, *Insurance (Marine) Act*, and the *International Financial Business Act*. The Insurance Council of B.C. is responsible for licensing insurance sales agents and adjusters.

Pensions

Responsible for regulating pension plans registered in British Columbia under the *Pension Benefits Standards Act*.

Mortgage Brokers and Real Estate

Responsible for regulatory activities under the *Mortgage Brokers Act*, *Real Estate Act* and *Strata Property Act*. The Real Estate Council of B.C. has been delegated the Superintendent of Real Estate's regulatory responsibility for real estate agents and salespersons, property managers, and strata managers.

Support Functions

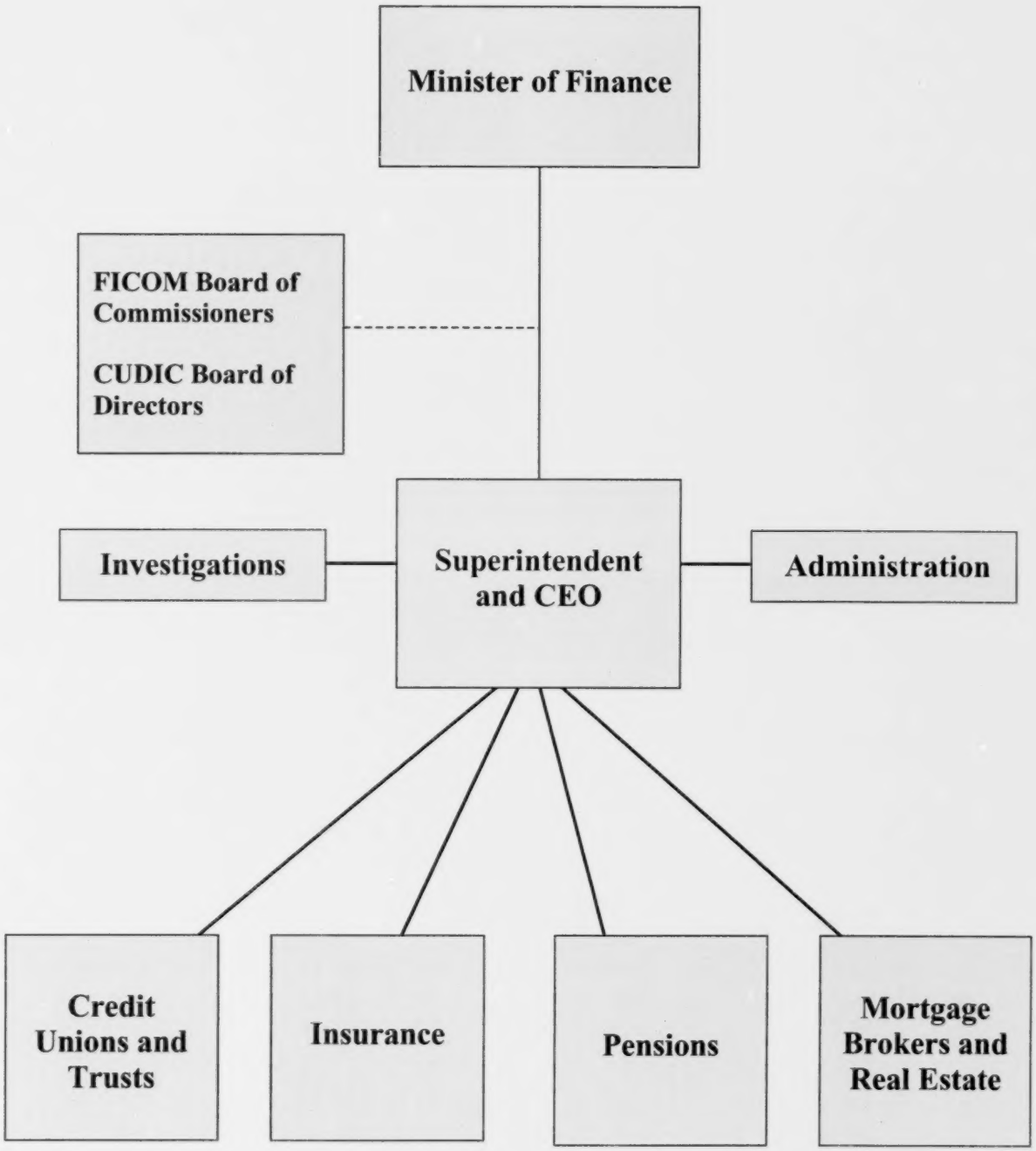
INVESTIGATIONS

The Investigations department investigates significant statutory breaches of all acts administered by FICOM, and undertakes investigations into related criminal matters, such as fraud.

ADMINISTRATION

FICOM's core business areas are supported by the following departments: Records, Systems, Accounting, Strategic Initiatives and Operational Planning, and the CEO's office. These departments provide a wide variety of services including records management, reception, communications, systems support, accounting, budgeting, purchasing, freedom of information requests, policy research, legislative reviews, performance planning and reporting, strategic human resources management, and executive secretarial support.

Organizational Chart



Section 4: Goals, Objectives, Strategies and Results

Approach to Performance Planning

As a BC government entity, FICOM prepares its Service Plan in accordance with guidelines issued by the Ministry of Finance's Treasury Board. These are general guidelines for all BC government entities.

Because of FICOM's role as a regulator, some deviations from the prescribed guidelines are necessary. The guidelines call for a process of first identifying goals, then objectives, and then strategies. Results are then to be tracked relative to performance measures. As a variant on this prescribed approach, FICOM has identified goals, then responsibilities, and then strategic activities. Results are then tracked relative to performance measures. This approach is better suited to FICOM's role as a regulator.

Organizational Goals

FICOM has identified six organizational goals:

Goal 1:	British Columbians have confidence in credit unions and trusts because they are effectively regulated.
Goal 2:	British Columbians have confidence in insurers because they are effectively regulated.
Goal 3:	British Columbians have confidence in provincial pension plans because they are effectively regulated.
Goal 4:	British Columbians have confidence in mortgage brokers because they are effectively regulated, and British Columbians are satisfied with FICOM's administration of its real estate responsibilities.
Goal 5:	The investigative activities of FICOM deter non-compliance with statutes and criminal activities related to financial services in British Columbia.
Goal 6:	FICOM is administratively effective and efficient.

Overview of FICOM's Strategic Activities

Starting in 2001, FICOM began dramatically changing its regulatory and supervisory approach. Like many other financial services regulators in the world, FICOM has adopted a risk-based approach to financial services supervision. The past regulatory approach to financial services focused on compliance with statutes and regulation: examinations to ascertain compliance were the primary activity of FICOM's staff.

Under a risk-based approach, FICOM assumes that compliance with statutes and regulations by financial services providers does not ordinarily require verification. In its role as a regulator, FICOM now focuses on the key risks relative to individual financial institutions and institutions are reviewed on an ongoing basis relative to their specific risk profile.

This new approach has required considerable work by FICOM staff to develop new systems for evaluating credit unions, trusts, and insurance companies. The implementation of a risk-based approach for pensions is planned now that the Pensions Standards Branch has been combined with FICOM.

FICOM's responsibilities for real estate services have been undergoing a statutory review in the past two years. New legislation is anticipated in 2004.

Use of Indexes to Track Confidence

To track its effectiveness at an Outcome/Key Indicator level, FICOM is developing indexes for its first three organizational goals. The indexes are intended as a general gauge of the state of the respective industries and will be used to guide the level, manner, and intensity of regulatory supervision.

An index is a weighted scoring of a number of variables and provides more balanced performance reporting than a series of individual measures. Individual measures can, because of inherent volatility and statistical variance, fluctuate substantially and thereby distort performance reporting.

Compiling multiple measures into an index more accurately conveys how well FICOM is performing as a regulator. However, indexes do present some methodological issues and fine-tuning is often required. The weightings of individual variables in an index, the rescaling of variables, and the substitution, or addition/subtraction of variables to an index are three common changes that can be required. The planned composition, including weightings, for each index is discussed in the applicable sections of this Service Plan.

For ease of interpretation, FICOM's performance reporting will be presented with a baseline/target level and with a minimum standard (see chart on following page). Then, in subsequent Annual Reports, the baseline will be updated to show performance relative to the target and the actual performance level.

The baseline is the level of the index in past years, while the target is the level that FICOM hopes to see realized. The actual performance level may vary to the target.

The minimum standard is the level that FICOM believes the index must reach. A level below the minimum standard suggests that urgent regulatory issues have arisen.

Sample Chart Showing Index Baseline/Target and Minimum Standard

Goal 1: *British Columbians have confidence in credit unions and trusts because they are effectively regulated.*

OUTCOME/KEY INDICATOR

Confidence index for BC credit unions.

CORE BUSINESS AREA

Credit Unions and Trusts.

RESPONSIBILITIES

FICOM has broad responsibilities relative to credit unions and trusts in British Columbia. The primary focus of FICOM's regulatory activities is the solvency of these institutions. FICOM administers the licensing and registration system for these institutions. FICOM is also responsible for reviewing the legislation and regulations that govern credit unions and trusts relative to its regulatory responsibilities, and for ensuring that emerging risks and policy issues are understood and reasonably anticipated. FICOM supports the Credit Union Deposit Insurance Corporation (CUDIC), which provides deposit insurance for credit unions, and delegates some activities to Stabilization Central Credit Union.

The specific regulatory responsibilities of FICOM are as follows:

1) Identify credit unions and trusts and their specific practices that pose a risk to depositors or beneficiaries and ensure that remedial action is taken.

2) Provide a timely and efficient licensing and registration regime for credit unions and trusts.

3) Monitor regulatory burden on credit unions and trusts and seek to reduce where possible.

4) Ensure that adequate research into emerging risks and policy issues is conducted.

5) Support CUDIC and ensure it is administered effectively and efficiently.

6) Oversee activities that are delegated to Stabilization Central Credit Union.

STRATEGIC ACTIVITIES

The following activities represent how FICOM is meeting its regulatory responsibilities for credit unions and trusts in fiscal 2004-05:

1) Administer and evaluate the newly implemented risk-based supervisory framework for credit unions and trusts.

2) Review new legislation and incorporate into regulatory practices.

3) Review current regulatory requirements for credit unions and trusts, and eliminate unnecessary regulatory burden.

4) Identify training requirements for staff related to the new supervisory framework and arrange for necessary training.

5) Review emerging policy issues and assist with corresponding updates to the legislation and regulation that applies to credit unions and trusts.

6) Review and update administrative procedures at FICOM related to processing business authorizations for credit unions and trusts.

7) Complete review of CUDIC investment policy.

8) Prepare a risk management program for CUDIC that identifies the major risks to the BC credit union system that could result in the deposit insurance fund being impaired.

9) Review FICOM's credit union and trust company forms to reduce regulatory burden.

10) Review CUDIC's communications materials and related regulatory requirements to ensure that they meet contemporary needs.

11) Complete development of Confidence Index for BC Credit Unions.

PERFORMANCE REPORTING

FICOM is developing confidence indexes to track its effectiveness in regulating credit unions and trusts at an Outcome/Key Indicator level. At this time, a preliminary index has been developed for credit unions, but one has not yet been developed for trusts.

FICOM's confidence index for BC credit unions will be compiled using a weighted formula. The weightings of the specific performance measures reflect the proportionate impact of a given measure on the overall confidence index. The performance measures and corresponding weightings planned for the index are as follows:

Confidence Index for BC Credit Unions — Composition and Weightings	
Survey of Consumer Confidence in BC Credit Unions	35%
Survey of Stakeholders and Expert Observers	20%
Bond Rating of Credit Union Central of BC	15%
Funding Status of the CUDIC Fund	15%
Growth of Credit Union Deposits Relative To Bank Deposits	10%
Performance of CUDIC Fund Relative To Performance Benchmarks	5%

Survey of Consumer Confidence (35%)

A survey of consumer confidence in credit unions is one method of tracking the effectiveness of financial services regulation in BC: if consumers are confident in these institutions, that is a reasonable indication that the institutions are effectively regulated.

Survey of Stakeholders and Expert Observers (20%)

A survey of stakeholders and expert observer confidence in credit unions is another method of tracking the effectiveness of financial services regulation in BC: if the stakeholders have confidence in the credit union system, that is a reasonable indication that institutions are effectively regulated.

Bond Rating of Credit Union Central (15%)

The bond rating of Credit Union Central of BC reflects the overall financial health of the BC credit union system. This measure allows comparisons between the BC credit union system and numerous other financial institutions throughout the world.

Funding Status of the CUDIC Fund (15%)

The funding status of the CUDIC fund measures how well capitalized the fund is relative to its actuarial requirement. As with a pension fund or other insurance fund, a fund that is under-funded is cause for concern and could affect British Columbian's confidence in credit unions.

Growth of Credit Union Deposits Relative To Bank Deposits (10%)

The growth of credit union deposits relative to bank deposits is a measure of the comparative performance of credit unions and reflects, in part, the confidence that the public has in credit unions relative to banks. However, if federal banks, given their comparative size, have a significant cost advantage, that advantage may be the primary reason that their growth rates exceed those of BC credit unions. A further issue is that either banks or credit unions may more actively encourage their customers to invest in products other than their deposit products.

Performance of CUDIC Fund Relative to Performance Benchmarks (5%)

The investment performance of the CUDIC fund contributes to the funding status of the fund. The CUDIC investment policy provides specific performance benchmarks to gauge how well the CUDIC investment managers have been performing and how the fund as a whole has been performing.

Goal 2: *British Columbians have confidence in insurers because they are effectively regulated.*

OUTCOME/KEY INDICATOR

Confidence index for BC insurers.

CORE BUSINESS AREA

Insurance.

RESPONSIBILITIES

FICOM regulates solvency and market conduct of insurers, and registers captive insurance companies operating in British Columbia.

FICOM's responsibilities related to solvency vary depending on the jurisdiction of incorporation. Solvency regulation ensures that, to a reasonable extent, insurers operating in British Columbia will have the resources to meet the policy obligations they enter into. FICOM is the principal regulator of solvency for BC's incorporated insurers, but is the secondary regulator for extra-provincial insurers.

FICOM regulates market conduct for all insurers in BC. Market conduct supervision ensures that identified problems with insurers related to their statutory obligations are addressed.

FICOM's insurance department also administers the *International Financial Business Act*.

The specific regulatory responsibilities of FICOM are as follows:

1) Supervise insurance companies and address solvency concerns with their operations.

2) Receive and evaluate insurance related complaints and statutory market conduct issues with insurers.

3) Provide a timely and efficient licensing and registration regime for insurers and captive insurance companies.

4) Identify opportunities to streamline and harmonize regulations with other jurisdictions, and otherwise eliminate unnecessary regulatory burden on institutions to ensure minimal costs to industry and, in turn, consumers.

5) Maintain a strong working relationship with the Insurance Council of BC.

6) Administer the *International Financial Business Act*.

STRATEGIC ACTIVITIES

The following activities represent how FICOM is meeting its regulatory responsibilities for insurance in fiscal 2004-05:

1) Implement and administer the newly developed risk-based supervisory framework for insurers.

2) Implement statutory and regulatory changes to insurance regulation in BC following the updating of the *Financial Institutions Act* to meet objectives of the current statutory review.

3) Review regulatory requirements for insurers with other regulators and attempt to eliminate unnecessary requirements.

4) Review emerging risks and policy issues, and assist with corresponding updates to the legislation and regulation that applies to insurers.

5) Develop an electronic filing system for required insurer financial information and filings.

6) Review FICOM's insurance related forms to reduce regulatory burden.

7) Conduct a survey of insurance stakeholders.

8) Process applications under the *International Financial Business Act*.

9) Complete development of Confidence Index for Insurance in BC.

PERFORMANCE REPORTING

FICOM is developing a confidence index to track its effectiveness in regulating insurance at an Outcome/Key Indicator level. At this time, a preliminary index has been developed for insurance.

This index will be compiled using a weighted formula. The performance measures and corresponding weightings planned for this index are as follows:

Confidence Index for Insurance in BC — Composition and Weightings	
Survey of Consumers Regarding Insurance Company Solvency	30%
Survey of Insurance Industry Representatives	20%
Qualitative Review of Insurance Complaints Received By FICOM	20%
Solvency Measure for BC's Provincial Insurance Companies	15%
Solvency Measure for Extra-Provincial Insurance Companies Operating in BC	15%

Survey of Consumers on Insurance (30%)

A survey of consumer confidence in insurers' ability to pay claims is one method of tracking the effectiveness of financial services regulation in BC: if consumers are confident in these institutions, that is a reasonable indication that institutions are effectively regulated.

Survey of Insurance Industry Stakeholders and Expert Observers (20%)

A survey of insurance industry stakeholders and expert observers is another method of tracking the effectiveness of financial services regulation in BC: if these people have confidence in insurers' ability to pay claims, that is a reasonable indication that institutions are effectively regulated.

Qualitative Review of Insurance Complaints Received at FICOM (20%)

A qualitative review of complaints received at FICOM regarding insurance is a good, negatively correlated measure of confidence and how effectively insurance companies are regulated. FICOM staff has previously observed that market conduct complaints about a given company often increase significantly as solvency problems arise.

Solvency Measure for BC's Provincial Insurance Companies (15%)

The relative solvency of insurers is a key determinant of their ability to meet their business obligations and ensure strong standards of market conduct.

Solvency Measure for Extra-Provincial Insurance Companies (15%)

The relative solvency of insurers is a key determinant of their ability to meet their business obligations and ensure strong standards of market conduct.

Goal 3: *British Columbians have confidence in pension plans because they are effectively regulated.*

OUTCOME/KEY INDICATOR

Confidence index for BC's provincially regulated pension plans.

CORE BUSINESS AREA

Pensions.

RESPONSIBILITIES

FICOM is responsible for the oversight of pension plans in British Columbia.

FICOM monitors compliance with minimum standards for such administrative requirements as vesting and disclosure. This monitoring ensures that plan members are adequately communicated with regarding their rights under their pension plans.

FICOM also monitors the financial condition of pension plans, including review of funding ratios and solvency measures. This monitoring ensures that pension plans are in compliance with legislative and regulatory funding requirements.

The specific regulatory responsibilities of FICOM are as follows:

1) Provide an efficient registration system for pension plans under the *Pension Benefits Standards Act*.

2) Monitor pension plans for legislative and regulatory compliance.

3) Review requests for consent by the Superintendent to plan amendments and other matters.

4) Respond to public queries regarding provincial pension plans.

5) Intervene when pension plans are not administered in accordance with significant statutory requirements.

6) Coordinate programs with those of other jurisdictions and authorities to ease the regulatory burden on pension plans.

STRATEGIC ACTIVITIES

The following activities represent how FICOM is meeting its regulatory responsibilities for pensions in fiscal 2004-05:

1) Begin development of a risk-based approach to pension plan regulation.

2) Develop an electronic filing system for required pension plan submissions.

3) Conduct survey of pension plan members.

4) Conduct survey of pension plan employers.

5) Review pension plan disclosure requirements.

6) Complete development of Confidence Index for BC Pension Plans.

PERFORMANCE REPORTING

FICOM is developing a confidence index to track its effectiveness in regulating pensions at an Outcome/Key Indicator level. At this time, a preliminary index has been developed for pensions.

This index will be compiled using a weighted formula. The performance measures and planned weightings for the index are as follows:

Confidence Index for BC Provincial Pensions — Composition and Weightings	
Survey of General Public's Perception of Pension Regulation and Funding Adequacy	20%
Survey of Plan Members' Perception of Pension Regulation and Funding Adequacy	20%
Percentage of all Plan Members in Plans with Funding Ratios Below 90%	20%
Aggregate Actual Annual Return of All Plan's Assets	20%
Active Members as Percentage of Total Membership	20%

DISCUSSION OF INDIVIDUAL PERFORMANCE MEASURES

Survey of General Public's Perception of Pension Regulation and Funding Adequacy (20%)

The general public perception of how well pensions are regulated and their funding adequacy is important because pensions are ultimately in existence because employees sought them and employers agreed to create them. If pensions are not perceived positively, a public policy problem is present and regulatory action is likely needed.

Survey of Plan Member's Perception of Pension Regulation and Funding Adequacy (20%)

The perceptions of pension plan members of how well pensions are regulated and their funding adequacy is similarly important as discussed above.

Percentage of all Plan Members in Plans with Funding Ratios Below 90 Percent (20%)

This measure provides an indication of how many BC pension plans have significant solvency issues, a key consideration for pension plan members and the confidence of the public in BC pension plans.

Aggregate Actual Annual Return of All Plans' Assets (20%)

This measure reflects the financial performance of pensions and their ability to meet future obligations. Some reporting issues can be present with this measure.

Active Members as Percentage of Total Membership (20%)

From a financial standpoint, pensions are generally evaluated on a going concern basis. Consequently, a decrease in active membership relative to pensioners is generally not a desirable development for a pension plan.

Goal 4: *British Columbians have confidence in mortgage brokers because they are effectively regulated, and British Columbians are satisfied with FICOM's administration of its real estate related regulatory responsibilities.*

OUTCOME/KEY INDICATOR

Public confidence in mortgage brokers, and satisfaction with the administration of FICOM's real estate related regulatory responsibilities.

CORE BUSINESS AREA

Mortgage Brokers and Real Estate.

RESPONSIBILITIES

FICOM is the regulator of mortgage brokers, who are authorized to arrange, buy, sell, administer or fund mortgages on real estate.

Currently, under Part 1 of the *Real Estate Act*, the authority to license real estate professionals has been delegated to the Real Estate Council of British Columbia, with FICOM remaining the regulator. FICOM also has a regulatory role under Part 2 of the *Real Estate Act* relative to the marketing of certain real estate developments.

A discussion paper was issued in March 2003 that detailed a proposed new framework for real estate regulation in British Columbia. This proposed framework would see the Real Estate Council of British Columbia become a self-regulatory organization that is responsible for the licensing and the conduct of real estate professionals. FICOM will retain authority for investigating unlicensed activity and for intervening when urgent concerns for the public interest arise. FICOM will continue to have regulatory responsibilities for the marketing of certain types of real estate developments under streamlined procedures.

FICOM also has some approval authorities under the *Strata Property Act*.

With the proposed framework in place, the regulatory responsibilities of FICOM related to mortgage brokers and real estate will be as follows:

1) Regulate mortgage brokers in British Columbia.
2) Administer approval authorities under the *Strata Property Act*.
3) Investigate unlicensed real estate activity.
4) Ensure the marketing of certain property developments meets disclosure requirements.
5) Intervene in the regulation of real estate professionals if an urgent concern for the public interest arises.

STRATEGIC ACTIVITIES

The following activities represent how FICOM is meeting its regulatory responsibilities for mortgage brokers and real estate in fiscal 2004-05:

1) Implement alternative payment options for mortgage brokers.
2) Modify administrative processes following passage of amendments to the *Real Estate Act*.
3) Update and modify the performance reporting framework for regulated real estate activities as the amendments to the *Real Estate Act* are legislated.
4) Maintain strong working relationship with the British Columbia Securities Commission to ensure that regulatory responsibilities are harmonized.

PERFORMANCE REPORTING

The following performance measures have been identified for FICOM's regulation of mortgage brokers and real estate related activities:

- Survey of confidence in mortgage brokers.
- Qualitative review of annual complaints received by FICOM and of investigations undertaken by FICOM regarding mortgage brokers.
- Monitoring of the marketing of certain real estate developments for compliance with disclosure requirements.
- Timeliness of processing of mortgage broker applications.
- Timeliness of processing of real estate related filings.

DISCUSSION OF INDIVIDUAL PERFORMANCE MEASURES

Survey of Confidence in Mortgage Brokers

A survey of consumer confidence in mortgage brokers provides a general perspective on how well the regulatory system is operating.

Qualitative Review of Annual Complaints Received By FICOM and of Investigations Undertaken By FICOM Regarding Mortgage Brokers

A qualitative review of the complaints received by FICOM regarding mortgage brokers and related investigations provides an understanding of how well the regulatory framework is functioning and potential gaps in it.

Monitoring of the Marketing of Certain Real Estate Developments for Compliance with Disclosure Requirements.

Whether or not disclosure requirements are widely adhered to by real estate developers provides a good measure of how well the public interest is supported.

Timeliness of Processing of Mortgage Broker Applications

The processing of applications received in a timely manner provides a measure of both effectiveness and efficiency.

Timeliness of Processing of Real Estate Filings

The processing of filings that are required of certain real estate developers in a timely manner provides a measure of both effectiveness and efficiency.

Goal 5: *The investigative activities of FICOM deter non-compliance with statutes and criminal activities related to financial services in British Columbia.*

OUTCOME/KEY INDICATOR

Survey of industries regulated by FICOM on FICOM's effectiveness in conducting investigations of serious non-compliance with statutes and criminal activities.

CORE BUSINESS AREA

Support service to all core business areas.

RESPONSIBILITIES

FICOM has responsibilities for investigating the specific sectors of the financial services industry that are regulated by FICOM, including investigations of statutory breaches and criminal activity.

FICOM is not responsible for investigations of federally regulated financial services providers such as banks.

The specific regulatory responsibilities of FICOM are as follows:

1) Respond professionally to all enquiries and complaints received and, where appropriate, direct the public to government, industry or self-regulatory organizations as required.

2) Investigate complaints of statutory and regulatory contraventions in British Columbia related to provincially regulated financial services if a significant impact on public confidence in the financial services sector is probable.

3) Investigate complaints of criminal activity involving provincially regulated financial services in British Columbia to ensure that the public is protected from criminal activity.

4) Provide information to the public on detecting fraudulent or other inappropriate business practices to help them avoid being victimized.

5) Provide information to financial institutions on fraud schemes that may have a systemic impact.

STRATEGIC ACTIVITIES

The following activities represent how FICOM is meeting its regulatory responsibilities for investigations in fiscal 2004-05:

1) Review new legislation that is administered by FICOM for its impact on investigative policies and procedures.

PERFORMANCE REPORTING

- Survey of financial services stakeholders on FICOM's investigative effectiveness.
- Comparative review of FICOM's investigative effectiveness.
- Internally produced year-end report on FICOM's investigative effectiveness.

Discussion of Individual Performance Measures

Survey of Regulated Financial Services Providers of FICOM's Investigative Effectiveness

Financial services providers generally have a good understanding of the types of issues that necessitate investigations of statutory breaches and/or may involve criminal activity, and the challenges involved in such investigations. This understanding allows them to reasonably evaluate FICOM's effectiveness in investigations.

Comparative Review of FICOM's Investigative Effectiveness

A comparative review of FICOM's investigative effectiveness provides an objective assessment.

Internally Produced Year-end Report on FICOM's Investigative Effectiveness

An internal assessment of FICOM's investigative effectiveness provides a good measure of the effectiveness in investigations activities as judged from the standpoint of what approaches were taken in conducting investigations and their relative success.

Goal 6: *FICOM is administratively effective and efficient.*

OUTCOME/KEY INDICATOR

Comparative review of administrative services.

CORE BUSINESS AREA

Support services to all core business areas.

RESPONSIBILITIES

FICOM operates under a "$1000 vote" for budgeting purposes: it is a self-funded entity. As such, it is responsible for ensuring that it operates in an administratively effective and efficient manner.

FICOM has identified the following as specific administrative and operational responsibilities:

1) Ensure that FICOM's working environment supports staff productivity and development.

2) Ensure that FICOM's computer systems reach the standard required of both staff and regulated entities.

3) Ensure that FICOM's accounting functions are efficient and that financial reporting is meaningful.

4) Ensure that FICOM's purchasing and inventory functions are efficient.

5) Ensure that FICOM's records management functions are efficient.

6) Ensure that "make vs. buy" analysis is completed as part of ongoing corporate planning.

7) Ensure that FICOM has adequately assessed organizational risks and that identified risks are responsibly managed.

8) Provide information to financial institutions on regulatory compliance as legislation and regulations are updated and revised.

9) Respond professionally to freedom of information (FOI) requests made to FICOM, and ensure that they are processed efficiently.

10) Prepare and publish service plan and annual report in accordance with BC government guidelines in a timely manner.

STRATEGIC ACTIVITIES

The following activities represent how FICOM is meeting its administrative and operational responsibilities in 2004-05:

1) Develop and implement new information systems to increase electronic filing and reduce manual paper filing at FICOM.

2) Prepare a risk management program for FICOM to identify and manage risks that FICOM faces.

3) Conduct a strategic planning session with FICOM executive staff to address developing issues in financial services regulation and their administrative and operational consequences for FICOM.

4) Review procedures for processing information requests of FICOM under the *Freedom of Information and Protection of Privacy Act*.

5) Implement new communications plan.

6) Review how telephone requests for information and complaints received by FICOM could be more effectively processed.

7) Produce annual report on time and to a standard that is at least equal to comparable BC government agencies.

8) Produce service plan on time and to a standard that is at least equal to comparable BC government agencies.

9) Maintain website to a standard that is at least equal to comparable BC government agencies.

PERFORMANCE REPORTING — EFFECTIVENESS MEASURES

Comparison of Website with that of Comparable BC Government Agencies

The comparison of FICOM's website with that of comparable BC government agencies provides a good indication of how effectively FICOM is communicating with the public.

Comparison of Annual Report with that of Comparable BC Government Agencies

The comparison of FICOM's annual report with that of comparable BC government agencies provides a good indication of how effectively FICOM is communicating with the public.

Comparison of Service Plan with that of Comparable BC Government Agencies

The comparison of FICOM's service plan with that of comparable BC government agencies provides a good indication of how effectively FICOM is communicating with the public.

Completion of Freedom of Information Requests within Statutory Deadlines

The *Freedom of Information and Protection of Privacy Act* mandates deadlines for processing freedom of information (FOI) requests. FICOM tracks FOI requests for adherence to these deadlines.

PERFORMANCE REPORTING — EFFICIENCY MEASURES

Credit Unions

- Total credit union regulatory fees per $1000 of system assets
- Total deposit insurance assessments per $1000 of system deposits
- Total credit union regulatory fees and total deposit insurance assessments per $1000 of system assets

Insurance

- Total insurance regulatory fees per $1000 of premiums written

Pensions

- Regulatory fees per pension plan member — defined benefit plan
- Regulatory fees per pension plan member — defined contribution plan
- Regulatory fees per $1000 of pension plan assets — defined benefit plan
- Regulatory fees per $1000 of pension plan assets — defined contribution plan

Mortgage Brokers and Real Estate

- Total regulatory fees per mortgage sub-broker
- Total regulatory fees per mortgage broker

Appendix 1: Strategic Context

Overview

The Financial Institutions Commission (FICOM) was created with the merger of the Office of the Superintendent of Financial Institutions (SOFI), a part of the then Ministry of Finance and Corporate Relations, and the Credit Union Deposit Insurance Corporation (CUDIC). The initial merger took place in 1988, however, the *Financial Institutions Act*, the defining statute of the Commission, was proclaimed on September 1, 1989. This statute brought the regulation of credit unions, insurance, trusts, and deposit insurance coverage for credit unions under one legislative act.

Commencing in 1988, the Superintendent of Financial Institutions (SOFI) had also served as the Superintendent of Real Estate and the Registrar of Mortgage Brokers, with dedicated staff to assist in the administration of related programs. These functions were previously performed by the Superintendent of Brokers, but were transferred to SOFI when the British Columbia Securities Commission was formed in 1987.

Responsibilities for British Columbia pensions were added in 2003 when the Pensions Standards Branch merged with FICOM, effective April 1, 2003.

FICOM currently has responsibilities under eleven different statutes:

- *Community Financial Services Act*
- *Credit Union Incorporation Act*
- *Financial Institutions Act*
- *Insurance Act*
- *Insurance (Captive Company) Act*
- *Insurance (Marine) Act*
- *International Financial Business Act*
- *Mortgage Broker Act*
- *Pension Benefits Standards Act*
- *Real Estate Act*
- *Strata Property Act*

Responsibilities for regulating real estate agents and salespersons, and property managers are delegated to the Real Estate Council of B.C. The Insurance Council of B.C. is responsible for regulating insurance agents, salespersons and adjusters.

The activities of FICOM are primarily funded by fees and assessments charged to industry. As a self-funded agency, FICOM is covered by a $1,000 vote in the provincial government's budget.

A schematic diagram showing the structure of financial services regulation is included with Appendix2.

Vision, Mission and Values

VISION

To be the most progressive and cost-effective regulator in Canada of financial services, pensions, and real estate services.

MISSION

Maintain confidence in British Columbia's financial services sector by effective regulation.

VALUES

A group of FICOM staff that was drawn from across the organization reviewed FICOM's stated values in the fall of 2003. A revised values statement was produced as follows:

FICOM VALUES

Our actions are guided by the following values:

Effectiveness	We focus on obtaining results, even when they are difficult to measure, rather than on activities. We anticipate problems before they arise and address them in a timely manner.
Integrity	We value honesty, cooperation, transparency, reliability, fairness and respect within the workplace and demonstrate these qualities in the exercise of our regulatory function.
Professionalism	We take pride in the quality of our work and continually strive to improve ourselves by seeking knowledge, revising our methods and providing innovative solutions.
Accountability	We are accountable for the decisions we make.

Planning Context

The financial services sector operates within a complex environment. As British Columbia's regulator of these services, FICOM faces a wide array of external and internal challenges.

EXTERNAL CHALLENGES

Technological Advances

The Internet presents substantial challenges for financial services regulators.

Unauthorized offshore companies can now utilize the internet to provide services directly to BC residents and evade regulatory scrutiny.

National and international financial services firms are increasingly moving towards call centres located outside of BC to service BC residents.

Provincial credit unions are taking steps to expand their business outside of BC, often relying on technological opportunities that have only recently arisen.

New technologies are making traditional branch structures less cost-effective for financial institutions. This development is prompting them to withdraw from smaller communities, particularly in rural areas, with significant ramifications for customer service and competition.

Demographic Shifts

Two significant demographic shifts will have a substantial impact on the financial services sector in British Columbia in the coming decades.

The aging population will cause financial institutions to focus on "wealth management" to a much greater extent. The security of savings and retirement funds will be even more important, and pooled savings techniques such as mutual funds will provide competition to the traditional savings accounts offered by deposit-taking institutions.

The population decline in some rural communities will make them less desirable to financial institutions for business development, and further issues related to customer service and competition may arise.

Economic Challenges

The BC economy faced a host of economic challenges in the first years of this decade, with many industries, such as forestry, tourism and high-tech, having confronted particularly strong challenges. It is notable for FICOM that periods of severe economic pressure have historically yielded significant residual challenges for financial services regulators.

Industry Consolidation

Numerous mergers and acquisitions amongst firms in the financial services sector have occurred in recent years, both among FICOM regulated institutions and among federally regulated institutions. Mergers are expected to continue in many segments of the financial services industry. These moves offer both benefits and challenges for financial regulators, particularly with regard to consumer issues and the complexity of regulatory activities.

Product and Other Innovations

Insurers and deposit-taking institutions have recently increased promotion of a number of new and innovative products, including expanded group insurance, segregated funds, index-linked deposits, reverse mortgages, and pet insurance. Moreover, financial derivative instruments have become increasingly popular risk management tools. These types of innovations warrant regulatory attention.

Public Information

The increasing complexity of financial services and the ongoing dangers of financial fraud present many challenges for FICOM in its efforts to inform the public about issues related to financial services regulation.

Federal Government Initiatives

As the federal regulator of banks, insurance companies and pensions, the Office of the Superintendent of Financial Institutions, operating under the Federal Department of Finance, has considerable influence on the financial services sector. FICOM must monitor federal policy and regulatory initiatives carefully for their impact on British Columbia.

INTERNAL CHALLENGES

Transition to Risk-Based Regulation

Like many other financial services regulators, including Canada's federal regulator, the Office of the Superintendent of Financial Institutions (OSFI), FICOM has implemented a risk-based regulatory model, and has moved away from a traditional compliance-based model. This move presents significant challenges involving organizational restructuring, recruitment, and professional development. It also requires evaluation.

Staffing, Recruitment and Professional Development

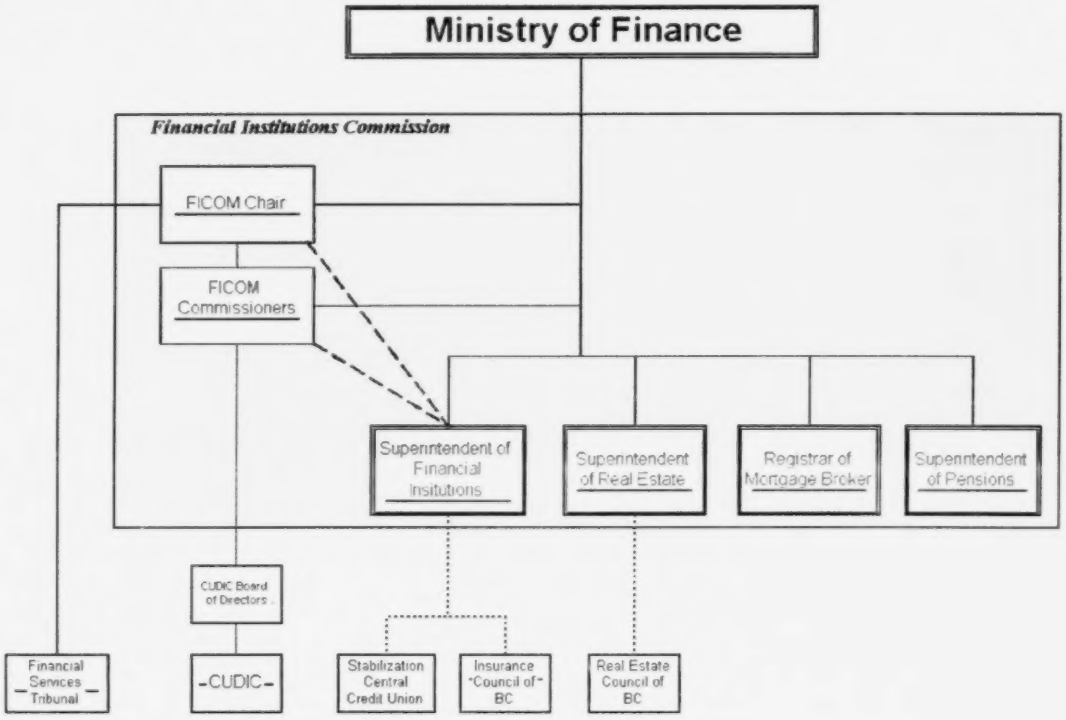
FICOM faces significant human resources challenges at this time. A relatively high-turnover rate and ongoing vacancies suggest difficulties competing with private sector employers. Recruitment of new staff is difficult and, with the average age of FICOM employees currently at forty-six, this problem will be further exacerbated in the coming years. Moreover, the adoption of a risk-based regulation will require substantial retraining and education for existing staff.

Information Systems

FICOM's current information systems need upgrading to keep pace with changes in the financial services sector and to support FICOM's adoption of a risk-based supervisory framework. Substantial capital investment and management resources will be required.

Appendix 2: Regulatory Structure

Financial Services Regulation in British Columbia



Note: A Ministry of Finance Discussion Paper on *Financial Institutions and Financial Intermediaries* issued in November 2003 has proposed significant structural changes to the regulation of financial services in British Columbia. A key proposal is that the Superintendent of Financial Institutions would be made accountable to the FICOM Commissioners, rather than the Minster of Finance. The statutory authorities for regulating financial institutions that are currently accorded to the Minister would be transferred to the FICOM Commissioners.